

Exhibit No. _____
Witness: Brian K. Staihr
Type of Exhibit: Surrebuttal Testimony
Party: Sprint Nextel Corporation
Case No. IO-2006-0086

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Application of Sprint Nextel Corporation)
for Approval of the Transfer of Control of) Case No. IO-2006-0086
Sprint Missouri, Inc., Sprint Long)
Distance, Inc. and Sprint Payphone)
Services, Inc. From Sprint Nextel)
Corporation to LTD Holding Company.)

SURREBUTTAL TESTIMONY OF BRIAN K. STAIHR

ON

BEHALF OF

SPRINT NEXTEL CORPORATION

PUBLIC VERSION

JANUARY 5, 2006

1 ***SECTION I: NAME/BACKGROUND/PURPOSE***

2 **Q. Please state your name, title, and business address.**

3 A. My name is Brian K. Staihr. I am currently employed by Sprint Nextel
4 Corporation as Senior Regulatory Economist in the Department of Law and
5 External Affairs. My business address is 6450 Sprint Parkway, Overland Park,
6 Kansas 66251.

7
8 **Q. Following the separation of the local telephone companies from Sprint
9 Nextel, what will be your title?**

10 A. I will be Director-Policy/Economist for the new stand-alone company, referred to
11 in this proceeding as LTD Holding Company.

12
13 **Q. Please briefly describe your educational background and work experience.**

14 A. I hold a B.A. in Economics from the University of Missouri-Kansas City, and an
15 M.A. and Ph.D. in Economics from Washington University in St. Louis. My field
16 of specialization is Industrial Organization, which includes both Regulation and
17 Theory of the Firm.

18
19 I began working with Sprint's Regulatory Policy Group in 1996. In my current
20 position I am responsible for the development of state and federal regulatory and
21 legislative policy for all subsidiaries of Sprint Nextel Corporation, including

1 Sprint Nextel's various incumbent local telephone companies, its wireless entities,
2 and its long distance and competitive local exchange carrier services. I am also
3 responsible for the coordination of policy across business units. My specific
4 responsibilities include 1) ensuring that Sprint Nextel's policies are based on
5 sound economic reasoning, 2) undertaking or directing economic / quantitative /
6 financial analysis to provide support for Sprint Nextel's policies, 3) advocating
7 those policies, and 4) conducting original research. The specific policy issues that
8 I have addressed include pricing and costing, cost of capital, access reform, local
9 competition including interconnection and unbundling issues, universal service,
10 and more.

11
12 In my position I have testified before Congress on telecommunications issues, and
13 my research has also been used in Congressional oversight hearings. I have also
14 served as Sprint's representative in closed Senate workshops on telecom reform.
15 Since the passage of the Telecommunications Act of 1996 I have appeared before
16 Commissions or Boards of the following states: Texas, Florida, Kansas, New
17 Jersey, Pennsylvania, North Carolina, South Carolina, Nevada, Illinois,
18 Tennessee, Oregon, California, Georgia, New Mexico, Virginia, Minnesota,
19 Nebraska, and Missouri. I have also worked extensively with the Federal
20 Communication Commission's (FCC) staff and presented original research to the
21 FCC.

1 In January 2000 I left Sprint temporarily to serve as Senior Economist for the
2 Federal Reserve Bank of Kansas City. There I was an active participant in the
3 Federal Open Market Committee process, the process by which the Federal
4 Reserve sets interest rates. In addition, I conducted original research on
5 telecommunication issues and the effects of deregulation. Portions of that research
6 are publicly available at <http://www.kc.frb.org/RuralCenter/MainSt2000.htm>. I
7 returned to Sprint in December 2000.

8
9 For the past nine years I have also served as Adjunct Professor of Economics at
10 Avila University in Kansas City, Missouri. There I teach both graduate and
11 undergraduate level courses.

12
13 Prior to my work in Sprint's Regulatory Policy Group I served as Manager-
14 Consumer Demand Forecasting in the marketing department of Sprint's Local
15 Telecom Division. There I was responsible for forecasting the demand for
16 services in the local market, including basic local service, and producing elasticity
17 studies and economic and quantitative analysis for business cases and opportunity
18 analyses.

19

20 **Q. What is the purpose of your Surrebuttal Testimony?**

21 A. In my Surrebuttal Testimony I respond to the Amended Response to Staff
22 Testimony of Ms. Debbie Goldman, filed on behalf of the Communications

1 Workers of America ("CWA") on January 4, 2006. Specifically, I address several
2 misstatements, incorrect conclusions, and inaccurate assumptions made by Ms.
3 Goldman in her testimony.

4 ***SECTION II: MS. GOLDMAN - FCC ISSUES***
5

6 **Q. On pages 5-9 of her Amended Response to Staff Testimony, Ms. Goldman**
7 **discusses a letter submitted by the (then) CEOs of Sprint and Nextel, Gary**
8 **Forsee and Tim Donahue to the FCC on August 2, 2005. Are you familiar**
9 **with that letter?**

10 A. Yes I am. In the letter Messrs. Forsee and Donahue state their intention that the
11 New Local Company "...will be a financially secure, Fortune 500 company."
12 Toward that end, they state that the company will receive an equitable debt and
13 asset allocation at the time of the separation.

14

15 **Q. On page 6 of her Amended Response to Staff Testimony, Ms. Goldman**
16 **claims that the proposed capital structure is inconsistent with the**
17 **commitments made in that letter. Is she correct?**

18 A. No. The arguments presented in Ms. Goldman's testimony are so fundamentally
19 flawed that it is necessary to respond to them on multiple levels.

1 First, it is necessary to point out that Ms. Goldman's entire method for
2 determining whether a debt and asset allocation is "fair and equitable" is
3 simplistic and devoid of any analysis. Apparently Ms. Goldman believes that an
4 allocation is "fair and equitable" if it produces two numbers that are the same. On
5 page 7 of her Response to Staff Testimony she concludes that the allocation of
6 debt and assets is not "fair and equitable" because (according to her flawed
7 calculation) the percent of debt is different than the percent of assets. She
8 presents no other line of reasoning, no other argument, no data, no analysis, no
9 study; she produces nothing else in her testimony except to say the two
10 percentages are different from each other. Then, on page 9 of her Amended
11 Response to Staff Testimony, she concludes that the capital structure of the LTD
12 Holding Company is not "fair and equitable" because it is different from the
13 capital structure of Sprint Nextel. Again, there is no evaluation or analysis
14 presented; her sole argument is that the two companies have different capital
15 structures. It is only possible to conclude that Ms. Goldman's entire investigation
16 into this issue can be reduced down to this: "fair and equitable" means "the same"
17 while "different" must mean, by default, neither fair nor equitable.

18
19 **Q. What are the fundamental flaws in such an approach?**

20 A. The first flaw is that Ms. Goldman's entire argument confuses "equitable" with
21 "equivalent". The FCC letter that Ms. Goldman cites did not say, "...a fair and
22 equivalent" allocation of assets and debt. If it had, then a comparison of relative

1 amounts *might* make some sense, assuming they were calculated correctly. (For
2 more on this point, see the Surrebuttal Testimony of Sprint Nextel witness Mr.
3 Kent Dickerson which I refer to below.) However, even then there would be
4 serious problems with any claim that an allocation was fair just because it was
5 equivalent. For example, it would be an “equivalent” allocation of assets and debt
6 if LTD Holding Company received 20% of the assets and 20% of the debt of
7 Sprint Nextel, or 90% of the assets and 90% of the debt. That does not mean
8 either allocation is fair, much less reasonable, appropriate, optimal or logical. Yet
9 it appears that both such allocations would meet Ms. Goldman’s standard since
10 they reflect amounts that are “the same”.

11

12 The next flaw is that apparently Ms. Goldman does not understand that the act of
13 allocating assets and debt is a means to an end, not an end in and of itself. By this
14 I mean, when a company is separating into two parts it is doing so for a reason. In
15 the case of Sprint Nextel and the New Local Company, the reason is a continuing
16 and growing conflict between Sprint Nextel’s strategic direction and the local
17 companies’ strategic direction. The allocation of assets is done with the goal of
18 each company having the requisite assets needed to successfully engage in its
19 business and pursue its strategic direction. For example, it makes sense to
20 allocate access lines to the New Local Company; it does not make sense to
21 allocate wireless spectrum to the new local company. Therefore, there is some
22 subset of assets that is both *right* and *reasonable* to be allocated to LTD Holding

1 Company, and that subset is what it is whether it represents 10% or 20% or 40%
2 or 95% of the total assets. Making sure that LTD has the assets it needs to pursue
3 its business is what makes an allocation of assets *equitable*; not some number or
4 percentage that is attached to it. More on this issue is discussed in the Surrebuttal
5 Testimony of Sprint Nextel witness Mr. Kent Dickerson, where he explains that
6 the assets allocated to LTD Holding Company are indeed right and reasonable.

7
8 The same is true for debt. Once the right subset of assets has been allocated to the
9 LTD, a decision must be made as to how the LTD company should be capitalized.
10 Finance theory fundamentals tell us that how a company is capitalized affects the
11 value of the company, because it determines the company's cost of capital.
12 Therefore, just as in the case of assets where there was a "right" amount, there is a
13 "right" amount of debt for the LTD to have. And the "right" amount of debt is
14 not zero. The "right" amount of debt is the amount that minimizes the company's
15 cost of capital, thereby maximizing the value of the firm. Therefore, just as in the
16 case of assets, there is some amount of debt that is right and reasonable for LTD.
17 And just as in the case of assets, that amount is what it is whether it represents
18 10% or 30% or 90% of existing debt. Making sure that LTD has the right amount
19 of debt to minimize its cost of capital and maximize the value of the firm is what
20 makes an allocation of debt *equitable*, not some percentage that is attached to it.

1 The fundamental flaw in Ms. Goldman's approach is that she apparently has no
2 interest in *why* LTD has a certain amount of assets or a certain amount of debt;
3 she only cares (for some reason) that these amounts be the same. No place in her
4 testimony does she explain why she believes the same percentage of assets and
5 debt is right, or desirable. No place in her testimony does she explain how
6 requiring the percentage of assets and debt to be the same accomplishes the goals
7 of ensuring the company can pursue its business while maximizing the value of
8 the firm. In essence, she has taken the entire discipline of optimal capitalization
9 theory and ignored it completely.

10
11 **Q. Is there any *a priori* reason to believe it makes sense for the capital structure**
12 **of LTD Holding Company and the capital structure of Sprint Nextel to be the**
13 **same?**

14 A. No. Because the companies each operate with a different strategic emphasis, each
15 will represent a different level and type of risk to any potential investor.
16 Therefore, because any investor's expected return is a function of risk, each
17 company will require a different return to its respective equity or debt investors.
18 This suggests that each will have a different cost of equity and cost of debt;
19 accordingly, each will have a different capital structure that minimizes the overall
20 weighted cost of capital. This means each will have a different capital structure
21 that maximizes the value of the firm. Unless Ms. Goldman has produced an
22 analysis where she has determined that the same capital structure for both firms

1 minimizes each firm's cost of capital, there is no justification for believing that it
2 makes any sense at all for the two firms—LTD Holding Company and Sprint
3 Nextel—to have similar capital structures.

4 **Q. Are there additional factors that must be considered when determining**
5 **whether a debt and asset allocation are equitable; that is, right and**
6 **reasonable?**

7 A. Yes. First, at several points throughout her Amended Response to Staff
8 Testimony that Ms. Goldman suggests the relative amount of debt on the LTD
9 Holding Company is excessive.¹ It is not. As the Houlihan Lokey "Report to
10 Sprint Nextel Corporation" (see the Direct Testimony of Kevin P. Collins, Exhibit
11 KPC-2) clearly demonstrates on page 7, LTD Holding Company will actually be
12 somewhat less leveraged, on average, than the comparable companies in the
13 industry. The leverage of the new stand-alone company is quite comparable to
14 that found in the capital structures of other companies in the industry, as discussed
15 Direct Testimony and Exhibit of Mr. Collins of Houlihan Lokey. This fact is
16 important because, as discussed elsewhere in this testimony, the act of separating
17 the local operations into a stand-alone corporation requires the re-capitalization of
18 the LTD Holding Company as a new, unique entity. At the end of the day, LTD
19 Holding Company should have leverage and a capital structure that is reasonable
20 and reasonably similar to comparable firms in its respective industry. The

¹ For example, page 14 line 21 (...large amount of debt...), page 14 line 2 (...heavy debt load...),
page 13 line 17 (...highly leveraged capital structure...).

1 proposed equity-to-capital ratio for the LTD Holding Company is *****BEGIN**
2 **HIGHLY CONFIDENTIAL** [REDACTED] **END HIGHLY CONFIDENTIAL*****. The
3 average equity-to-capital ratio of the six comparable firms as contained in Mr.
4 Collins' analysis is approximately 54%. In fact, looking at Mr. Collins' analysis,
5 if one examines the two comparable firms which come closest to the size and
6 scale of the LTD Holding Company (Citizens and CenturyTel), the average of
7 those two firms' equity-to-capital ratios is 56%, *****BEGIN HIGHLY**
8 **CONFIDENTIAL** [REDACTED]
9 [REDACTED] **END HIGHLY CONFIDENTIAL*****

10
11 ***SECTION III: MS. GOLDMAN AND FINANCIAL RESTRICTIONS***

12
13 **Q. At several points in her testimony Ms. Goldman also discusses what she**
14 **considers restrictions of the use of cash that the LTD Holding Company**
15 **faces.² Are her observations correct?**

16
17 **A.** No. It appears that Ms. Goldman believes that excess cash must be used to reduce
18 principal on debt. This is an incorrect assumption. As referenced in the
19 testimony of witness Kent Dickerson, there are no restrictions on what LTD can
20 or may do with its cash. LTD is not obligated in any way to use excess cash to
21 pay down its debt. There is no requirement or condition for LTD Holding

² See Confidential Direct Testimony at page 11 lines 16-18, 20-21.

1 Company to use excess cash balances to pay down debt. Paying down debt is one
2 option available to LTD Holding Company, but it is certainly not the only option.
3 There may be many better uses for any available cash balances. For example, if
4 there is a new business endeavor that would potentially produce a higher return
5 (that is, higher than the cost of debt), then any available cash would clearly be
6 more efficiently used in that business endeavor, rather than in paying down debt.
7 In fact, it is possible that such a scenario—a business opportunity that offers a
8 better use for discretionary cash than retiring debt—would produce an expansion
9 in capital spending for LTD Holding Company. As referenced in Mr. Dickerson’s
10 testimony, it is entirely possible that LTD Holding Company’s best business
11 decision could be to maintain relative amounts of debt—particularly at these low
12 costs—and use any excess cash for the development of new products, services, or
13 infrastructure that enhance its core business.

14
15 **Q. Does this incorrect assumption—that LTD Holding Company must use**
16 **excess cash to pay down its debt—lead Ms. Goldman to make other incorrect**
17 **assumptions?**

18
19 **A.** Yes. She suggests that, because of this debt and its purported “restrictions”, LTD
20 will have limited financial flexibility to maintain and grow the business and take
21 advantage of opportunities as they arise (Amended Response to Staff Testimony
22 at page 16, lines 5-6). This statement is simply factually incorrect. We know this

1 by examining the interest coverage ratio for LTD, which measures the ability of a
2 firm to use its earnings to cover its interest obligations. The higher an interest
3 coverage ratio, the more flexibility a firm has regarding how it wants to use its
4 earnings. This measure for LTD and comparable companies is also found on page
5 7 of the Houlihan Lokey "Report to Sprint Nextel Corporation". Looking at that,
6 we can see that the interest coverage ratio for LTD is almost twice as high as the
7 average for comparable companies. This shows that LTD Holding Company will
8 have, on average, more resources and more flexibility than comparable firms in
9 the industry, certainly not less.

10

11 ***SECTION IV: MS. GOLDMAN AND THE "PURCHASE" OF LTD ASSETS***

12

13 **Q. On page 4 of her Amended Response to Staff Testimony, Ms. Goldman**
14 **discusses what she characterizes as a purchase of assets. Please comment on**
15 **her discussion.**

16 **A.** On that page of her testimony, lines 14-15, Ms. Goldman writes the following
17 words: "LTD will use all of the newly issued debt to pay Sprint Nextel for LTD's
18 assets." It is possible to respond to this issue in two different ways. First, it is
19 important to clarify that what Ms. Goldman characterizes as "LTD assets" are
20 Sprint Nextel's assets that ultimately roll up to the books of Sprint Nextel. The
21 assets on the books of Sprint Missouri, Inc. ("Sprint Missouri") roll up to the
22 books of LTD, which roll up to the books of Sprint Nextel. Similarly, the equity

1 and liabilities of Sprint Missouri roll up as well. Following the separation there
2 will be a new, distinct corporation formed (LTD Holding Company) which will
3 have—in addition to a separate Board of Directors, management team, stock
4 listing, etc.—its own separate assets, what Ms. Goldman calls the “LTD assets”.
5 In fact, those assets will have been contributed to the new company by Sprint
6 Nextel. And it will have its own liabilities: the debt discussed above. As
7 mentioned above, what will have been accomplished is the re-capitalization of a
8 unique, distinct company in such a way as to produce a reasonable capital
9 structure, one that is neither over-leveraged nor under-leveraged, and one that is
10 comparable to other industry participants. The allocation of assets and debt are
11 indeed equitable, fair, reasonable, and appropriate. The LTD Holding Company
12 will have all of the assets it requires to succeed in the business in which it
13 operates. It will have an appropriate amount of leverage that allows the company
14 to minimize its cost of capital and maximize the value of the firm. Ms. Goldman
15 has provided zero evidence to the contrary.

16

17 **Q. You indicated that this issue could be looked at in two different ways. What**
18 **is the second way?**

19 A. Ms. Goldman’s reference to “paying” for assets, combined with the slightly
20 sensationalistic question posed on page 4 of Ms. Goldman’s testimony (“Do I
21 understand you correctly? LTD will pay Sprint Nextel for the LTD assets?”)
22 suggest that Ms. Goldman believes some type of purchase is taking place.

1 Technically a purchase is not taking place, but it can be useful to use such a
2 mental construct to understand the nature of the transaction.

3
4 As stated above, the assets that Ms. Goldman refers to as “LTD assets” in fact roll
5 up to the books of Sprint Nextel. Upon separation those assets will no longer be
6 on the books of, or roll up to, or be owned by, Sprint Nextel. They will be
7 completely owned by the new local holding company, LTD Holding Company. It
8 is possible to view the new notes and the proceeds of the bank debt as being used
9 to “purchase” those assets. In fact, if Sprint’s local operations were being sold to
10 a third party it is extremely likely that the purchase would be financed, at least in
11 part, in a very similar fashion; what is key, however, is that in such a case those
12 proceeds would go to Sprint Nextel (i.e. the seller) -- not to LTD, which is the
13 company being purchased. If in fact, as Ms. Goldman suggests (page 26 of her
14 Amended Response to Staff Testimony, lines 1-3), the proceeds should be
15 retained by LTD Holding Company it would be akin to a buyer borrowing cash to
16 buy a house, buying the house, but getting to keep all the cash as well.

17
18 However, the pitfall of using this mental construct is that it tempts one to ask,
19 “Haven’t the Sprint Nextel local companies been paying for these assets all
20 along?” The answer, of course, is no; when a subsidiary pays a dividend to its
21 parent, a dividend which comes from cash flows that were a result of the

1 subsidiary providing some good or service to end-users, the subsidiary is not
2 purchasing itself.

3
4 The characterization of a “purchase” is also technically incorrect because it
5 suggests there are two unique sides or parties involved. There are not. Sprint
6 Nextel *shareholders* currently own all the Sprint Nextel assets, including the local
7 telephone company assets, as well as all liabilities. Upon separation, the same set
8 of shareholders will still own the same set of assets (and liabilities). They will
9 simply own them in two distinct corporations.

10
11 ***SECTION IV: MS. GOLDMAN AND INDICATIVE RATINGS***

12
13 **Q. On pages 13 and 14 of her Amended Response to Staff Testimony, Ms.**
14 **Goldman suggests that the major bond rating agencies have reacted**
15 **negatively to the LTD Holding Company’s proposed capital structure. Is her**
16 **observation correct?**

17 **A.** No it is not. Ms. Goldman’s discussion of the bond rating agencies’ opinions
18 makes the error of confusing concerns about the local exchange carrier (“LEC”)
19 industry as a whole with concerns about LTD Holding Company’s specific capital
20 structure. For example, on page 14 Ms. Goldman includes a quote from
21 *****BEGIN HIGHLY CONFIDENTIAL** [REDACTED]
22 [REDACTED]. **END HIGHLY CONFIDENTIAL***** available to LTD

1 Holding Company. It is true that the letter makes this reference, but the reference
2 has nothing to do with LTD Holding Company's relative amounts of debt and
3 equity. In fact, the paragraph from which Ms. Goldman's quote is taken does not
4 include a single reference to debt, equity, leverage, or any other aspect of capital
5 structure. In addition, the letter goes on to state that *****BEGIN HIGHLY**
6 **CONFIDENTIAL** [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED] **END HIGHLY CONFIDENTIAL*****. Ms.
11 Goldman is simply incorrect to suggest that the rating agency (Fitch) is concerned
12 about LTD Holding Company's capital structure.

13
14 Similarly, the Moody's letter that Ms. Goldman cites on page 13 states quite
15 clearly that *****BEGIN HIGHLY CONFIDENTIAL** [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED] **END HIGHLY CONFIDENTIAL*****
22

1 Finally, it is most interesting that on page 13 Ms. Goldman also quotes from the
2 S&P letter that was provided in response to a CWA data request that Ms.
3 Goldman includes as an attachment to her testimony. The reason this is
4 interesting is that Sprint Nextel's response to discovery stated quite clearly that

5 ***BEGIN HIGHLY CONFIDENTIAL [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED] END HIGHLY

11 CONFIDENTIAL***

12
13 More importantly, in the same data request response, Sprint explained that

14 ***BEGIN HIGHLY CONFIDENTIAL [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

1 [REDACTED] **END**

2 **HIGHLY CONFIDENTIAL*****

3
4 This fact is echoed in a more recent press release from S&P dated November 10,
5 2005, and included with this testimony as Exhibit BKS-1. In that press release
6 S&P precisely echoes the statements included above. S&P writes, “Despite the
7 relatively moderate proposed capital structure, strong EBITDA margins, and good
8 discretionary cash flow characteristics, we are concerned about industry-wide
9 business risk...” The statement could not be clearer; it is not the proposed capital
10 structure of LTD Holding Company that S&P has concerns about. Rather, it is
11 the industry in which we operate.

12
13 In summary, it appears that Ms. Goldman would have the Commission believe
14 that the capital structure and relative debt ratio of LTD Holding Company, as
15 contained in the Application, have been negatively received by the major bond
16 rating agencies. This is not true. As discussed in the testimony and Exhibits of
17 witness Kevin P. Collins, the capital structure and associated metrics are in line
18 with the metrics of comparable firms. In fact, Fitch concluded its analysis with
19 the following statement: *****BEGIN HIGHLY CONFIDENTIAL** [REDACTED]

1

2

END HIGHLY CONFIDENTIAL***

3

4

SECTION V: MS. GOLDMAN AND NEGATIVE BOOK EQUITY

5

6

Q. On pages 15-16 of her Amended Response to Staff Testimony, Ms. Goldman raises the issue of negative book equity, and specifically states that investors will be concerned by the existence of negative equity on the books. She states that if the company were to go bankrupt, shareholders would be left with nothing. Please respond to these claims.

10

11

A. First, as explained in the testimony of Mr. Kevin Collins, negative book equity is often a function of accounting conventions, and does not reflect a company's value. Ms. Goldman's discussion of the impact of negative book equity on pages 15-16 contains no facts, and is nothing but conjecture. She suggests that it will be difficult to raise investor capital and describes a generic scenario in which (she claims) the company could go bankrupt, but she offers no reason as to why the scenario should be considered plausible or even remotely possible.

12

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The point that Ms. Goldman conveniently ignores is that the existence of positive book equity does not change her doomsday scenario in any way. If the transaction before the Commission was a sale, rather than a separation, the books of the LTD Holding Company would reflect billions of dollars of intangible

1 goodwill, and book equity would be positive. In fact, of the six comparable
2 companies contained in the Houlihan Lokey analysis, five of the six would have
3 negative book equity were it not for the intangible goodwill on their balance
4 sheets. They have positive book equity only because they have goodwill on their
5 balance sheets. Of course, this goodwill means nothing in the case of Ms.
6 Goldman's doomsday scenario where a company (for some unknown reason)
7 goes bankrupt. In the case of a bankruptcy, investors receive nothing for
8 goodwill. The point here is: Ms. Goldman's concern appears to be that negative
9 equity would leave shareholders with nothing. In reality, the positive book equity
10 on the books of the majority of comparable companies would also leave
11 shareholders with nothing. Therefore, contrary to Ms. Goldman's claims, the
12 hypothetical "concern" that she cites on page 15 is not a function of negative book
13 equity, and is no more applicable to LTD Holding Company than to the majority
14 of comparable firms identified in the Houlihan Lokey study.

15
16 It is also worth noting that the letters from bond rating agencies that Ms. Goldman
17 references in her testimony make no mention of any concern regarding book
18 equity levels. Each of the agencies discusses the existing risks associated with the
19 incumbent LEC business, and each of them was presented with information
20 outlining the fact that LTD Holding Company would have negative equity on its
21 books. Yet none comes to the same tragic conclusion that Ms. Goldman does
22 regarding the "impact" of negative book equity. It is also worth noting that the

1 *reason* Sprint Nextel has actively pursued the characteristics associated with
2 investment grade ratings for its debt—as reflected in the indicative ratings—is to
3 ensure that it is an attractive option for investors, and therefore will continue to be
4 able to attract capital if the need exists.

5
6 ***SECTION VI: SUMMARY OF RESPONSE TO MS. GOLDMAN***

7
8 **Q. Please summarize your response to Ms. Goldman’s testimony.**

9 A. Regarding Sprint’s letter to the FCC, Ms. Goldman is incorrect when she suggests
10 that the debt and asset allocation are not fair and equitable. The proposed capital
11 structure that is before the Commission is appropriate, reasonable, and
12 comparable to other companies in the industry. Furthermore it achieves the goals
13 of lowering the company’s cost of capital and increasing the value of the firm.
14 Ms. Goldman’s concerns regarding negative book equity are misplaced, and
15 supported only by undocumented conjecture. And her characterization of letters
16 from the major credit rating agencies is misleading. The agencies have concerns
17 regarding the LEC industry, given increased competition, but these concerns will
18 exist for LTD Holding Company whether it operates on its own or as part of a
19 larger, nationwide, wireless-focused entity. The real question before this
20 Commission is whether Sprint Missouri and LTD Holding Company will be
21 better situated to face this increased competition on their own, where they have
22 the flexibility, autonomy, and independence to meet their local customers’ needs

1 unencumbered by the demands of a larger carrier. The answer is clearly yes. The
2 Commission should approve the proposed separation without any of the
3 conditions suggested by Ms. Goldman.

4

5 **Q. Does this conclude your Surrebuttal Testimony?**

6 **A.** Yes it does.